

**Before the
Federal Communications Commission
Washington, D.C.**

In the Matter of)	
)	
Federal-State Joint Board on)	CC Docket No. 96-45
Universal Service)	

REPLY

The record in this proceeding overwhelmingly supports adoption of the Rural Task Force's Recommendation, as proposed in the Commission's *Further Notice*.¹ Of the twenty or so parties filing comments, eighteen, in addition to the National Exchange Carrier Association, Inc. (NECA), express support for the plan.²

Comments in this proceeding clearly demonstrate, for example, that the Non-rural Synthesis Model is not a workable tool for developing forward-looking costs of rural carriers. As the Public Service Commission of the United States Virgin Islands explains, forward-looking cost models underestimate the cost of serving rural and insular areas. Relying on actual, rather than incorrectly predicated costs, will assure that access to supported services in rural and insular areas is comparable to access in urban areas, as

¹ Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Further Notice of Proposed Rulemaking*, FCC 01-8 (rel. Jan. 12, 2001) (*Further Notice or FNPRM*).

² Other parties favoring adoption of the RTF Plan include AT&T, Centurytel, the Competitive Universal Service Coalition (ALTS, AT&T Wireless, Verizon Wireless, et al.), General Communications, Inc., GVNW Consulting, Inc., Innovative Telephone (formally Virgin Islands Tel.), Interstate Telecom Group, John Staurulakis, Inc. (JSI), NRTA, OPASTCO, USTA (Associations), PSC of the US Virgin Islands, Rural Independent Competitive Alliance, Rural Utilities Service, Sprint, Small Rural LECs (Evans Tel, Humboldt Tel, Kerman Tel, et al.) Telcom Consulting Associates (TCA), Townes Telecommunications, Inc., Western Alliance, and the Wyoming PSC. Only two parties (California Public Utilities Commission and WorldCom) oppose the RTF's recommendation.

required by section 254 of the Act.³ Telecom Consulting Associates agrees with the RTF's assessment that not only is the Synthesis Model not ready for use in rural company areas, the FCC's universal service mechanism for non-rural carriers would severely harm the ability of rural carriers to continue the provision of universal service.⁴ TCA further states that any type of statewide averaging of costs would have a devastating impact on the advancement of universal service in rural company areas, and should be avoided at all costs.⁵

Although most commenters agreed with the RTF's proposal to re-base the overall cap on the High Cost Loop (HCL) fund, several parties expressed concern similar to NECA's comments that continuation of the cap carries the risk that universal service funding will deteriorate over time. Some parties, including the Associations, GVNW, John Staurulakis, Inc, the Interstate Telecom Group, the Western Alliance, and others, recommended a total elimination of any cap on the revised HCL support (as proposed under the multi-association group or "MAG" access reform plan currently under

³ See USVI PUC at 4.

⁴ TCA at 5.

⁵ *Id.* Sprint expresses disappointment that the RTC settled on a cost model, but acknowledges that the current embedded cost mechanism is easier for all parties to administer and provides a practical way in which to proceed. Sprint at 2. Although WorldCom does not oppose extension of embedded cost mechanisms (at least for an interim period), it objects to increases in the size of the universal service fund. WorldCom at 4. The California Public Utilities Commission, however, objects to the RTF's proposal for continued use of embedded costs, supposedly because there is no evidence that basing universal service support on embedded costs will encourage investment in facilities used to provide universal service. CPUC at 5. These comments ignore the massive record compiled in this proceeding showing that current cost-based universal service funding mechanisms have produced dramatic successes in advancing and maintaining universal service, successes that are jeopardized by continued cap-based shortfalls in needed support levels. Recommendation at A-17 - A-20.

consideration by the Commission in CC Docket Nos. 00-256, 96-45, 98-77 and 98-166). According to these parties, any significant relief from the current "interim" cap would be welcome, but even the RTF cap will render support insufficient and unpredictable, in violation of sections 254(b)(5) and 254(e) of the Communications Act.⁶

Many commenters also supported NECA's view that the per-line limitation on support for transferred lines contained in section 54.305 of the Commission's rules creates many problems for small rural companies and customers involved in exchange sale transactions.⁷ The RTF's proposed safety valve mechanism, intended to "enable rural carriers acquiring access lines eligible for high-cost loop support to recover additional support reflecting 'meaningful investment' in acquired access lines",⁸ may not sufficiently alleviate this problem, but provide a good "second-best" alternative to eliminating the rule, pending further study.⁹

The RTF proposed a "safety net" additive to alleviate impacts from the HCL fund cap, but questioned whether this mechanism would permit a rural carrier to recover more

⁶ Western Alliance at 11; ITG at 6; GVNW at 3; JSI at 6,7.

⁷ Associations at 4; TCA at 11,12; GVNW at 1; JSI at 8,18.

⁸ FNPRM at 16, *citing* Recommendation at A-29

⁹ NRTA, OPASTCO and USTA, for example, urge the Commission to eliminate Section 54.305, as this "parent trap" discourages rural carriers from acquiring and upgrading inferior telephone exchange plant. Associations at 4. GVNW states that, while its preferred position would be a complete removal of section 54.305, the RTF's safety valve proposal is a step in the right direction and suggest that, if the adopted level for the safety valve cap stifles deployment of infrastructure investment, the Commission should recalibrate the valve to a more appropriate level. GVNW at 2.

than 100% of its incremental loop investment.¹⁰ The Associations suggested that a safety net additive would be unnecessary were the Commission to eliminate the HCL cap as well as the corporate operations expense limitation. Should the Commission not take this step, however, the Associations make clear that the RTF safety net proposal does in fact contain adequate safeguards to avoid any excess reimbursements.¹¹

Although the *Further Notice* sought comment only on the RTF's proposals, USAC questions whether responsibility for collection of high cost data should be transferred from NECA to USAC.¹² USAC's request for "clarification" actually would involve significant revisions to the Part 36 rules. This subject was never considered by the Rural Task Force or the Commission in its *Further Notice*, and, therefore, is beyond the scope of this proceeding.¹³

CONCLUSION

The record supports immediate adoption of the RTF's proposal, as endorsed by

¹⁰ Recommendation at A-27.

¹¹ Associations at 6. AT&T's comments confirm this as well. AT&T at 15.

¹² USAC Comments at 4, 5 – 7. *See also*, Letter from Richard A. Askoff, Deputy General Counsel, NECA to Irene Flannery, Chief, Accounting Policy Division, Federal Communications Commission (dated Dec. 28, 1999) (on file with Commission). NECA sent this letter in response to a USAC letter of December 9, 1999, in which USAC raised similar questions. *See Letter* from D. Scott Barash, USAC, to Irene Flannery, Federal Communications Commission (Dec. 9, 1999).

¹³ Also outside the scope of this proceeding is the CPUC's suggestion that the NECA pooling process be eliminated. CPUC *Comments* at 7.

the Joint Board, with due consideration of the potential long-term effects of imposing artificial limits or caps on the size of the Rural high cost fund.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copy of the Reply Comments was served this 12th day of March 2001, by electronic delivery or first class mail, to the persons listed below.

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